

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking to Integrate)
Procurement Policies and Consider Long-Term)
Procurement Plans.)
_____)

R.06-02-013
(Filed February 16, 2006)

**PROPOSAL OF CALPINE CORPORATION
ON POLICIES SUPPORTING NEW GENERATION**

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March 7, 2006

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Pursuant to the Order Instituting Rulemaking to Integrate Procurement Policies and Consider Long-Term Procurement Plans, and Administrative Law Judge Brown’s February 23 ruling, Calpine Corporation (“Calpine”) submits its proposal on policies needed to support new generation and long-term contracting issues. In general, Calpine supports the key points made in the pre-workshop proposal submitted by the Independent Energy Producers Association (“IEP”). The policies and actions recommended by IEP will build upon the Commission’s existing procurement policies and help better ensure that the benefits of competition in the wholesale energy market are realized.

In addition to points and recommendations made by IEP, Calpine would add that any new policies (or changes to existing policies) considered by the Commission in this proceeding – particularly policies designed to support new generation – must not preclude (or allow the investor-owned utilities (“IOUs”) to preclude) existing generation resources from participating in future resource solicitations.

In Decision 04-12-048, the Commission established a number of new procurement policies designed to ensure the procurement of least cost resources. In adopting these policies, the Commission recognized that ratepayers directly benefit from open solicitations which maximize both the number and type of resources considered by the IOUs. Thus, by identifying the quantity of needed long-term resources, ensuring that long-term resource solicitations are

open to new and existing resources, and ensuring that bids are evaluated in a fair and transparent manner, the correct amount of generation should get built at the least cost to ratepayers.

For instance, if an IOU conducts a long-term resource solicitation and there is insufficient existing supply in the market (or prices from existing generation exceed the cost of new entry), the solicitation process will necessarily result in the procurement of new long-term resources without the need to limit the types of resources that can participate (or new entry will set a ceiling price in the solicitation). On the other hand, if there is an excess of uncommitted supply in the market, prices for long-term resources would likely be very low from existing generation relative to new generation. Under either scenario, the need for new resources will be apparent and ratepayers will benefit from the procurement of least cost generation.

The IOUs have, in the past, sought to preclude existing generation resources from participating in certain types of resource solicitations, notwithstanding that existing facilities may otherwise be able to provide ratepayers with a least cost resource. For example, in 2005 Southern California Edison Company (“SCE”) and Pacific Gas and Electric Company (“PG&E”) each issued long-term resource solicitations for non-renewable generation that excluded existing generation resources from participating in the solicitations.¹ Such solicitations increase procurement costs and discourage future investment in new resources. Among other reasons, procurement costs increase because:

- Excluding resources from the solicitation decreases competition which lessens downward pressure on prices.
- An excluded resource could be the least cost resource.
- Project owners may reasonably believe that they must recover all project costs and investment return over one contract period because projects may not be eligible for subsequent long-term contracts.

¹ Although SCE ultimately withdrew its resource solicitation, PG&E continues to move forward with its solicitation.

Moreover, policies that preclude existing generation from participating in resource solicitations may have the unintended effect of discouraging investment in new resources. For example, because project developers may have only one opportunity to secure a long-term contract, future investment in new resources will be discouraged because new projects will be at risk for being stranded after the initial contract period. To the extent new projects are ultimately developed, project developers will most likely wait until a project is selected as a winning bidder in a resource solicitation before committing resources to develop the project. Indeed, instead of encouraging the development and early completion of new generation projects, precluding existing generation from participating in resource solicitations may incentivize project developers to delay development and even *stop* construction of projects to conform with an on-line date identified in a resource solicitation. Project developers should be encouraged to develop projects prior to the issuance of a IOU resource solicitation – *not discouraged*.

More generation projects will ultimately be developed in California if developers know that existing facilities will have an opportunity to participate in *future* IOU resource solicitations for long-term contracts. For this reason, Calpine urges the Commission to take all steps necessary to ensure that existing generation resources are not precluded from participating in future resource solicitations.

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Respectfully submitted,
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CERTIFICATE OF SERVICE

I, Judy Pau, certify:

I am employed in the City and County of San Francisco, California, am over eighteen years of age and am not a party to the within entitled cause. My business address is One Embarcadero Center, Suite 600, San Francisco, California 94111-3834.

On March 7, 2006, I caused the following to be served:

PROPOSAL OF CALPINE CORPORATION ON POLICIES SUPPORTING NEW GENERATION

enclosed in a sealed envelope, by first class mail on the parties listed as “Appearance” and “State Service” on the attached service list who have not provided an electronic mail address, and via electronic mail to all parties on the service list who have provided the Commission with an electronic mail address.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on the date above at San Francisco, California.

/s/ Judy Pau
Judy Pau

Service Lists: R.06-02-013; R.04-04-003